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Turkey

Sugar Semi-annual

Turkey Sugar Semi-Annual 2014

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Report Highlights:

Turkey produced 2.39 million metric tons (MMT) of sugar in marketing year (MY) 2013/14 from a harvested area of 280,000 hectares. After remaining the same at 2,288,000 metric tons (MT) for the past two marketing years, Turkey's beet sugar quota increased slightly in MY 2014/15 to 2,327,500 MT. In light of the increased quotas, beet sugar production is expected to increase to 2.4 million metric tons in MY 2014/15.

Executive Summary:

Turkey's sugar sector is regulated by quotas set by the Sugar Board. Turkey's total sugar quota (beet sugar plus starch based sugar) is announced as 2,577,500 MT for MY 2014/15. Post estimates the production of 16.75 million MT of sugar beet from a harvested area of 285,000 hectares in MY2014/15. Beet sugar production is expected to be 2.4 million metric tons in MY 2014/15.

Starch based sugar quota is currently announced as 250,000 MT for MY 2014/15, however it was increased 25 percent in MY 2013/14 from the initial announcement of 244,000 MT to 305,000 MT.

Parliament is considering a draft regulation that was prepared by the Sugar Board which and would change the current Sugar Law.

Commodities:

Sugar Beets

Sugar, Centrifugal

Author Defined:**Production: Sugar beets**

Sugar beets are planted in 4-year rotations with corn, wheat, barley, potatoes and sunflowers. Factories begin processing sugar beets in the beginning of October and finish in January, in a period called the *campaign period*. A warm winter this year shifted the campaign period for MY 2014/15 to the middle of October.

The average national yield per decar (1,000 m²) has increased from 4.48 tons to 5.87 tons since 2008, but this figure has reached 6.36 tons in Central Anatolia (Konya region) in MY 2013/14. While the planted area and the number of beet farmers are decreasing, sugar beet yield has been increasing due to the adoption of modern agriculture techniques and higher quality seeds. Sugar beets require an average of 65 kg of water per square meter and all the plantations in Central Anatolia use either drip irrigation or sprinklers.

In MY 2013/14 Turkey produced 16,506,000 MT of sugar beets from a harvested area of 2,809,240 decars.

Production: Centrifugal Sugar

Turkey's total sugar quota was announced by the Sugar Board at 2,577,500 MT for MY 2014/15. The table below shows a breakdown of this quota as well as the final quotas for the past two marketing years as thousand metric tons.

| | 2012/2013 MY | | | 2013/2014 MY | | | 2014/2015 MY | | |
|---------------------------|--------------|-----------|--------------|--------------|-----------|--------------|--------------|-------------|----------------|
| | A Quota | B Quota | TOTAL | A Quota | B Quota | TOTAL | A Quota | B Quota | TOTAL |
| Beet Sugar | 2,200 | 88 | 2,288 | 2,200 | 66 | 2,288 | 2,260 | 67.5 | 2,327.5 |
| Starch Based Sugar | 244 | - | 244 | 305 | - | 305 | 250 | - | 250 |
| Grand Total | 2,444 | 88 | 2,532 | 2,505 | 66 | 2,593 | 2,510 | 67.5 | 2,577.5 |

The “A quota” is the amount of sugar that the producers can market domestically. The “B quota” is an additional margin for producers which amounts to 3 percent of the A quota. At the end of the campaign period, any excess sugar produced by the factories above their allocated quotas is sold as C sugar to exporters at world prices.

There are 33 sugar beet refineries in Turkey, 25 of which belong to the state-owned Türkiye Şeker Fabrikaları A.Ş. (Turk Şeker). Total production capacity of the 33 beet sugar factories is 3.1 million metric tons (MMT) per year, and the size of the beet-sugar sector is valued at more than US\$ 3 billion.

While the daily average beet processing capacity of the 25 factories under Turk Seker is 3,730 MT per day, the average beet processing capacity of private sector factories is 8,125 MT.

Allocation of the quotas among sugar beet producers for MY 2014/15 are given in the below table in metric tons.

| Beet Sugar Producers | A Quota | B Quota | |
|------------------------------------|------------------|----------------|--|
| Turk Seker Fabrikaları A.Ş. | 1,261,800 | 37,850 | |
| Adapazarı Şeker Fabrikası A.Ş. | 47,300 | 1,270 | |
| Amasya Şeker Fabrikası A.Ş. | 57,600 | 1,730 | |
| Kayseri Şeker Fabrikası A.Ş. | 311,400 | 9,340 | |
| Keskinkılıç Gıda San. ve Tic. A.Ş. | 107,000 | 3,210 | |
| Konya Şeker San. ve Tic. A.Ş. | 435,500 | 13,060 | |
| Kütahya Şeker Fabrikası A.Ş. | 39,300 | 1,040 | |
| Total | 2,259,900 | 67,500 | |

From the above table, Amasya, Kayseri, Konya and Kutahya have a total of 6 Sugar Factories and are members of PANKOBİRLİK (Union of Sugar Beet Producers’ Cooperatives).

Production: Starch-Based Sweeteners (SBS)

There are six starch based sugar (SBS) producers and the total production capacity of these 6 SBS factories is 1 MMT per year. The corn used by these producers is grown domestically.

The SBS quota was set at 244,400 MT, but then it was increased 25 percent to 305,000 MT for MY 2013/14. B quota is not allocated for SBS producers, but the Cabinet has the right to increase or decrease (which they have exercised always towards increase in the past years) the A quota up to 50 percent annually. A breakdown of the SBS quota among the 6 producers for MY 2014/15 is provided below.

| Starch Based Sugar Producers | A Quota |
|--|----------------|
| AMYLUM NİŞASTA SANAYİ VE TİCARET A.Ş. | 77,610 |
| CARGILL TARIM VE GIDA SANAYİ VE TİCARET A.Ş. | 109,537 |
| TAT NİŞASTA İNŞAAT SANAYİ VE TİCARET A.Ş. | 16,083 |
| SUNAR MISIR ENT. TES. SANAYİ VE TİCARET A.Ş. | 11,187 |
| PNS PENDİK NİŞASTA SANAYİ A.Ş. | 35,583 |
| Total | 250,000 |

As per the domestic sales figures of Sugar Board, Starch Based Sweetener producers utilize 80 percent of their production quotas to produce isoglucose referred to as High Fructose Corn Syrup and 20 percent for glucose syrup production.

Consumption

Beet sugar is consumed 80 percent by industry and 20 percent by households. The increase in home-use and industrial sugar consumption appears to be correlated with the increase in population and GDP.

Currently, Turkey's total annual sugar and sweetener consumption is around 2.5 MMT, where SBS accounts for approximately 250,000 MT, beet sugar accounts for 2,000,000 MT, and unregistered and smuggled sugar accounts for the remainder. The portion of SBS in total sugar consumption is increasing due to increased utilization by industry.

Turkey's annual per capita consumption of sugar is estimated to be 30 kilograms (kg).

Stocks

Production quotas helped to deplete Turkey's sugar stocks over the last few years. Any remaining stocks would belong to Turk Şeker and they try to sell this stock at discounted prices (ranging from 5 percent to 8 percent, depending on the amount purchased) before the beginning of the new campaign period. Ending stocks decreased from 157,000 MT in MY 2012/13 to 131,000 MT in MY 2013/14, but due to the decreased export figures they are expected to rise again to 148,000 MT in MY 2014/15.

Bio-ethanol

Turkey announced a 2 percent mandatory mixture rate of bio-ethanol into fuel starting from January 2013, which was then increased to 3 percent in 2014. As an incentive, the government keeps the added bioethanol amount exempt from Special Consumption Tax. The mandate requires roughly 60 thousand tons (76 million liters) of bio-ethanol production. However, no additional investment will be required in terms of plantation or production facilities because the current bio-ethanol production capacity of Turkey is 149.5 million liters. This capacity belongs mainly to four producers; the biggest of which is Konya Şeker with a capacity of 84 million liters (from sugar beets). The others are Tarkim (corn), Teskim (corn and wheat) and Eskişehir Sugar Plant (sugar beets).

The producers are providing bio-ethanol to their contracted gas stations (for example Tarkim works with Petrol Ofisi - the most widespread gas station in Turkey, and Konya Seker works with local gas station companies). The remaining bioethanol production is used for alcohol supply, mainly to industries such as for ink and paint production, as well as a small rate for food use.

Trade

Turkey's sugar exports decreased from 70,000 MT in MY 2011/12 to 66,700 MT in MY 2012/13 and further to 13,782 MT in MY 2013/14. The major reason behind this dramatic decrease is the political unrest going on in Turkey's largest export markets in the Middle East such as Iraq and Syria. Although exports to Azerbaijan have increased, countries in Africa that were seen as emerging export markets in MY 2013/14, such as Niger and Somalia, have seen declines.

As post predicted in previous reports, the decrease in the beet sugar quota in MY 2013/14 also reduced Turkey's sugar exports for MY2013/14.

The tariff rate on sugar imports to Turkey remains at 135 percent on the CIF value, which makes Turkey's sugar imports negligible. Import duties on products containing sugar such as candy, cookies, and chocolate vary between 8.3 percent and 15.4 percent, plus an additional tax called "agricultural contribution" is applied based on the starch/glucose ratio and milk fat percentage. This procedure was adopted from the EU system.

Export & Import Trade Matrix

The tables below give quantity figures in metric tons for refined sugar in solid form (HS Code: 170199)

Export Trade Matrix

| <i>Exports to</i> | <i>Aug 2012- Jul 2013</i> | <i>Aug 2013- Jul 2014</i> |
|----------------------|---------------------------|---------------------------|
| United States | 49 | 31 |
| Azerbaijan | 6,886 | 7,130 |
| Iraq | 2,525 | 56 |

| | | |
|--|---------------|---------------|
| Turkmenistan | 57 | 80 |
| Somalia | 7,500 | 5,000 |
| Syria | 37,810 | 526 |
| Turkish Rep. of Northern Cyprus | 3,092 | 487 |
| Lebanon | 1,154 | 82 |
| Australia | 36 | 36 |
| Niger | 2,750 | 0 |
| Israel | 20 | 40 |
| Italy | 520 | 0 |
| Others not listed | 4,239 | 314 |
| World Total | 66,717 | 13,782 |

Import Trade Matrix

| <i>Imports from</i> | <i>Aug 2012- Jul 2013</i> | <i>Aug 2013- Jul 2014</i> |
|----------------------------|----------------------------------|----------------------------------|
| United States | 0 | 1 |
| United Kingdom | 2,374 | 2,781 |
| France | 3,433 | 2,759 |
| Germany | 195 | 257 |
| Israel | 104 | 168 |
| Brazil | 0 | 456 |
| Others not listed | 5 | 60 |
| Grand Total | 6,111 | 6,481 |

Marketing:

Türk Şeker and other private producers are also wholesalers who handle the marketing of sugar to retailers. All SBS producers and distributors are private.

The price of A quota sugar beets with 16 percent polarity rate has increased from 149 Turkish Lira (TL)/ton (US\$82.77/MT) in MY 2012/13 to 156 TL/ton (US\$82.10/MT) in MY 2013/14, and C quota sugar beet price has ranged between 70-85 TL/ton (US\$36.8-44.7/MT) in MY 2013/14.

(Average annual exchange rates (TL/US\$) are 2012: 1.80, 2013: 1.90; 2014: 2.16)

Wholesale price of a 50 kg bag of crystal sugar is 131 TL (US\$60.6) and a 20 kg bag of cube sugar is 69TL (US\$31.9) (including 8 percent value added tax [VAT]) as of September 2014 (exchange rate for 1 US\$ is 2.16 TL).

Exporters of sugar products buy C quota sugar at world prices, and they can also import sugar under the inward processing regulation, where they do not pay the 135 percent duty imposed on sugar imports, with the precondition that they export the end product and not sell it domestically.

Policy:

Production Policy and Privatization

Quotas are significantly lower than the established production capacity of both beet sugar and SBS processing plants. This challenges all producers and leads to a consistent struggle of seeking higher quotas.

As a result of the large underutilized capacity, the Sugar Board prepared a draft communique to change the Sugar Law that has been in effect since 2001. The communique claims that the sugar sector in Turkey has undergone substantial changes and that there have also been global changes which necessitate a new law. The major changes that this draft presents and the current situation is summarized below:

1. Currently, the SBS quota is 10 percent of the beet sugar (A) quota and the Cabinet has the right to increase or decrease this quota an additional 50 percent (which creates a range of between 5 percent and 15 percent), but the new law sets the quota at a fixed 15 percent.
2. The Sugar Board shall be restructured with broader authorities and be converted to a Sugar Sector Regulation and Auditing Board.
3. Sugar is classified as food purpose and non-food industry purposes, and the sugar that will be used for non-food purposes is excluded from the announced quota regime.

The sugar beet producers object to this draft law claiming that it is biased towards supporting the SBS sector and would eventually hurt the sugar beet sector.

The law also calls for privatization efforts to continue, but the latest bids were cancelled by order of the Prime Minister. The sector wants the factories subject to privatization to be purchased by the sugar beet producers (cooperatives) so that the social aspects of the factories in the east can still be continued. For this purpose, they have proposed for the separation of factories' land from the plants, and only to sell the plants in an effort to discourage the construction companies that are mainly after the land of the factories.

For more details please refer to the Sugar Annual Report dated April, 2014 (TR4012).

Production, Supply and Demand Data Statistics:

Centrifugal Sugar

| Sugar, Centrifugal Turkey | 2012/2013 | | 2013/2014 | | 2014/2015 | |
|------------------------------|--------------------------------|-------------|--------------------------------|-------------|--------------------------------|-------------|
| | Market Year Begin: Oct 2012 | | Market Year Begin: Oct 2013 | | Market Year Begin: Oct 2014 | |
| | USDA Official | New Post | USDA Official | New Post | USDA Official | New Post |
| Beginning Stocks | 355 | 355 | 157 | 157 | 103 | 131 |

| | | | | | | |
|-------------------------------|-------|-------|-------|-------|-------|-------|
| Beet Sugar Production | 2,130 | 2,130 | 2,300 | 2,300 | 2,300 | 2,400 |
| Cane Sugar Production | 0 | 0 | 0 | 0 | 0 | 0 |
| Total Sugar Production | 2,130 | 2,130 | 2,300 | 2,300 | 2,300 | 2,400 |
| Raw Imports | 0 | 0 | 0 | 0 | 0 | 0 |
| Refined Imp. (Raw Val) | 5 | 5 | 9 | 9 | 10 | 7 |
| Total Imports | 5 | 5 | 9 | 9 | 10 | 7 |
| Total Supply | 2,490 | 2,490 | 2,466 | 2,466 | 2,413 | 2,538 |
| Raw Exports | 0 | 0 | 0 | 0 | 0 | 0 |
| Refined Exp.(Raw Val) | 33 | 33 | 63 | 15 | 40 | 40 |
| Total Exports | 33 | 33 | 63 | 15 | 40 | 40 |
| Human Dom. Consumption | 2,300 | 2,300 | 2,300 | 2,320 | 2,300 | 2,350 |
| Other Disappearance | 0 | 0 | 0 | 0 | 0 | 0 |
| Total Use | 2,300 | 2,300 | 2,300 | 2,320 | 2,300 | 2,350 |
| Ending Stocks | 157 | 157 | 103 | 131 | 73 | 148 |
| Total Distribution | 2,490 | 2,490 | 2,466 | 2,466 | 2,413 | 2,538 |
| | | | | | | |
| 1000 MT | | | | | | |

The above figures are in 1000 MT.

Sugar Beets

| Sugar Beets Turkey | 2012/2013 | | 2013/2014 | | 2014/2015 | |
|---------------------------|------------------------------------|----------------------|------------------------------------|----------------------|------------------------------------|-----|
| | Market Year Begin: Sep 2012 | | Market Year Begin: Sep 2013 | | Market Year Begin: Sep 2014 | |
| USDA Official | New Post | USDA Official | New Post | USDA Official | New Post | |
| Area Planted | 290 | | 291 | 291 | 315 | 295 |

